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SUBJECT: Inflation Fears Hit Hang Seng

¶1. Summary: Hong Kong Financial leaders and the local press are nervous about the impact of the U.S. Federal Reserve's latest announcement that it would increase its purchases of mortgage-backed securities and buy an additional 300 billion of U.S. Treasury bills over the next six months. In addition to concerns about the U.S. economy, Hong Kong observers fear a depreciating U.S. dollar will lead to accelerating inflation in Hong Kong. The Hang Seng fell on the Fed's announcement, but is up 13 percent over the past two weeks. End Summary.

Yam Warns of Inflation

¶2. Hong Kong Monetary Authority Chief Executive Joseph Yam warned Hong Kong investors to be cautious about market risks after the U.S. Federal Reserve Board announced its decision to increase its purchase of mortgage-backed securities and buy USD 300 billion worth of long-term Treasury Bills over the next six months. While endorsing the Fed's apparent desire to pursue "quantitative easing" in the short-run, Yam expressed his concerns about the potential for rising inflation if the U.S. continued a long-term monetary expansion policy.

¶3. Most Chinese dailies in Hong Kong raised concerns about the Fed's decision to print more money as U.S. dollar depreciation and resulting inflation in the U.S. would impact Hong Kong through the local currency's link to the U.S. dollar. The Hong Kong Economic Journal and Ming Pao suggested both the PRC Central government and the Hong Kong government should reconsider additional USD-denominated assets. Ming Pao repeated its regular support for de-linking the Hong Kong dollar from the U.S. currency. A Wen Wei Po editorial on Friday, March 20 warned that U.S. dollar depreciation and inflation would hurt U.S. creditors and developing countries. It attributed the recent rebound in global stock and energy prices to investor anticipation of more rapid depreciation of the U.S. dollar.

Hong Kong Unemployment Up, Air Traffic down

¶4. The Hong Kong Census and Statistics Department this week reported that the Hong Kong unemployment rate for the three months ending February 2009 has increased to 5 percent. The Airport Authority reported that the decline in Hong Kong airport traffic continued in February. Air passengers were down 13.7 percent in February and air cargo fell 19.7 percent from a year ago.

¶5. The Hong Kong stock market fell on fears that the U.S. Fed's additional Treasury purchases would force the U.S. dollar lower. The Hang Seng Index lost 2.27 percent or 297.41 points, closing at 12833.51 with a daily trade of HKD 43.9 billion on Friday but was has climbed sharply over the past two weeks since bottoming out at 11,344 on March 9. HIBOR quoted by Hang Seng Bank On Friday, March 20 stood at 0.05 percent for overnight, 0.1 percent for one-week, 0.3 percent for one-month, 0.9 percent for three-month and 1.2 percent for six-month borrowing.
Donovan